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Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ADP-00 AGR-20 STR-08 AID-20 COME-00

TRSE-00 CIAE-00 INR-10 NSAE-00 RSC-01 PA-03 PRS-01

USIA-12 HEW-08 RSR-01 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 /137 W
---------- 076336
R 301130 Z MAY 73
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 9561

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E. O. 11652: N/ A
TAGS: EFIN, ETRD, PINT, CE
SUBJ: FINANCE MINISTER N. M. PERERA PLEDGES END TO SUBSIDIES ON ALL IMPORTS

REF: COLOMBO 1360

1. FOLLOWING STEEP INCREASES IN MILK PRODUCTS GAZETTED MAY 26, FINANCE MINISTER N. M. PERERA ANNOUNCED MAY 28 THAT GOVT SUBSIDIES FOR ALL IMPORTS INCLUDING FOODSTUFFS WOULD CEASE " SOON". CALLING FOR A REALISTIC ECONOMIC POLICY WHICH WOULD PROHIBIT EXPENDITURE OF CAPITAL ON IMPORT CONSUMABLES, PERERA ADMONISHED PRIVATE SECTOR FOR FAILURE LQ ASSIST IN STIMULATION OF ECONOMY BUT CONCEDED PAST GOVT EFFORTS WERE MISDIRECTED. HE REPEATED MRS BANDARANAIKES RECENT PLEDGES TO PROHIBIT RICE IMPORTS FROM JUNE 1974 AND REFERRED INDIRECTLY TO MEASURES ADVOCATED BY INTERNATIONAL AID GROUPS WHEN HE DECLARED IT WAS IMPOSSIBLE TO CONTINUE HEAVY FLOW OF SUBSIDIZED IMPORTS. PERERA ACKNOWLEDGED LIKELIHOOD OF SHARP
POPULAR OPPOSITION
TO TERMINATION OF SUBSIDIES BUT NOTED FAILURE OF FIRST YEAR OF PRESENT FIVE YEAR PLAN MADE NEW AUSTERITY MEASURES INEVITABLE.

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2. COMMENT: UNUSUALLY SHARPLY WORDED SPEECH
INDICATES N. M.
PERERA IS GEARING UP FOR ANOTHER TRY AT FINANCIAL REFORM
MEASURES HE FAILED TO ACHIEVE IN NOV 1972. REDUCTION
IN SUBSIDIES FOR BASIC FOODSTUFFS AND OTHER IMPORTED NECESSITIES
HAS BEEN PLEDGED BEFORE
BUT MEASURES HAVE OFTEN BEEN RESCINDED
OR ONLY PARTIALLY IMPLEMENTED AS RESULT PARLIAMENTARY PRESSURE.
RISE IN PRICE OF MILK PRODUCTS FORESHADOWS OTHER PERERA MEASURES
REPORTEDLY IMPENDING, SUCH AS IMPOSITION OF CHARGE ON NOW FREE
FIRST MEASURE OF RICE OF 25 RUPEE CENTS, 8- TO-10 CENT INCREASE
R SUGAR, AND 10- CENT INCREASE FOR LOAF OF BREAD. SINCE FINANIU
MINISTER PROBABLY LACKS CABINET APPROVAL FOR ABOLITION OF SUBSIDIES,
HIS SPEECH TAKES ON NATURE OF TRIAL BALLOON, ONE WHICH, GIVEN
PRESENT STORM OF PROTESTHVER MILK PRICE RISE, IS LIKELY TO
BE SHOT DOWN BY SUBSIDY- LOVING CEYLONESE, BEGINNING WITH MANY
CABINET MEMBERS. QAPRIME MINISTER MAY TALK OF BAN ON RICE
IMPORTS IN 1974, AND PERERA MAY CALL FOR END TO SUBSIDIZED
IMPORTS, BUT POLITICAL HISTORY OF SRI LANKA THROWS CONSIDERABLE
DOUBT ON CHANCE OF SUCCESS. FURTHERMORE, EVEN IF PERERAS
ECONOMICALLY SOUND PROPOSALS SHOULD BE IMPLEMENTED, IN WHOLE
OR IN PART, THEY ARE LIKELY TO BE BALANCED POLITICALLY BY
OTHER MEASURES SUCH AS CHANGING STERLING COMPANIES INTO RUPEE
COMPANIES, WHICH WOULD CONSTITUTE FURTHER DISINCENTIVES TO
INVESTMENT AND PRODUCTION.
VAN HOLLEN

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